

Message Text

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ACTION EUR-12

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CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

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AMCONSUL MILAN

AMCONSUL NAPLES

C O N F I D E N T I A L ROME 10947

E.O. 11652: GDS

TAGS: EFIN, EAID, ELAB, IT, EC

SUBJECT: ANDREATTA'S VIEWS ON AID TO ITALY AND NEW ECONOMIC
PROGRAM

1. ON RETURN FROM VISIT TO MILAN AND TURIN, ECOMIN MET WITH
NONO ANDREATTA IN BOLOGNA JULY 3 FOR DISCUSSION ON ECONOMIC
AND POLITICAL SITUATION. ANDREATTA, WHO SERVED AS ECONOMIC
ADVISOR TO MORO DURING LATTER'S PRIME MINISTERSHIP, IS
PROFESSOR OF ECONOMICS AT UNIVERSITY OF BOLOGNA WHO WAS
ELECTED TO THE SENATE ON DC TICKET IN JUNE 20-21 ELECTIONS.
ALTHOUGH A NEWCOMER TO PARLIAMENT, IT IS EXPECTED THAT
ANDREATTA, ALREADY PROMINENT ON THE POLITICAL SCENE AND ONE
OF TWO WELL-KNOWN DC ECONOMISTS ELECTED TO THE SENATE (OTHER
IS SIRO LOMBARDINI OF TURIN), WILL PLAY INFLUENTIAL ROLE IN
MAKING OF ECONOMIC POLICY BY ANY DC GOVERNMENT. THERE HAS
BEEN SOME SPECULATION THAT ANDREATTA MIGHT SUCCEED COLOMBO
AS MISISTER OF TREASURY.

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2. AID TO ITALY.

(A) ANDREATTA NOTED EFFORTS PRESENTLY UNDERWAY BY EC COMMISSION TO STUDY POSSIBILITY OF LARGE SCALE EC AID TO ITALY. HE MENTIONED RUMOR THAT WHEN COMMISSION PRESIDENT ORTOLI COMPLETES HIS TERM OF OFFICE AT END OF 1976, HE WILL BE CHARGED WITH RUNNING A COMMUNITY AID PROGRAM FOR ITALY.

(C) ANDREATTA HOPED IT WOULD BE POSSIBLE FOR GOI TO UTILIZED SPECIAL PROCEDURES (NOT OTHERWISE SPECIFIED) TO SHORTCUT USUAL ADMINISTRATIVE/BUREAUCRATIC DELAYS IN UTILIZATION OF AID. HE ASSERTED THAT SUCH PROCEDURES HAD BEEN INSTITUTED IN THE CASE OF UTILIZATION OF FEOGA FUNDS (DESPITE ITALY'S POOR PERFORMANCE IN THIS AREA).

(C) ACCORDING TO ANDREATTA, FIRST STEP BY AID DONORS SHOULD BE "DEBT CONSOLIDATION" BECAUSE BULK OF ITALY'S FOREIGN DEBT FALLS DUE IN 3-4 YEARS.

(D) ANDREATTA ENVISAGED AID AS TAKING FORM OF LARGE SCALE PROJECT ASSISTANCE. IN THIS CONNECTION, HE SPECIFICALLY MENTIONED NUCLEAR ENERGY DEVELOPMENT AND DEVELOPMENT (APPARENTLY PRIMARILY IRRIGATION) OF AGRICULTURAL LAND IN THE SOUTH. THIS WOULD INCLUDE BOTH FUNDS AND TECHNICAL ASSISTANCE. ANDREATTA INDICATED THIS TYPE OF AID WOULD BE PREFERABLE, BOTH TO DONORS AND ITALY, BECAUSE IT WOULD BE VISIBLE.

3. GOVERNMENT ECONOMIC PROGRAM.

(A) ANDREATTA'S SOLUTION TO PROBLEM OF SHARPLY RISING LABOR COSTS IS TO LIMIT NUMBER OF POINTS (EACH IS ROUGHLY EQUIVALENT TO ONE PERCENT WAGE RISE) WHICH MAY BE INCREASED IN THE REGULAR QUARTERLY READJUSTMENT OF WAGES IN ACCORDANCE WITH ESCALATOR CONTAINED IN VIRTUALLY ALL LABOR CONTRACTS. THUS, PRINCIPLE OF ESCALATOR COULD BE MAINTAINED, BUT RATE OF INCREASE WOULD BE LIMITED. ANDREATTA CALCULATES THAT IN ABSENCE OF CHANGE IN ESCALATOR SYSTEM, RATE OF INFLATION WILL RISE TO 23 PERCENT IN 1977 AND NOT FALL TO 10 PERCENT UNTIL 1980. UNDER HIS PROPOSAL, HOWEVER, ITALY COULD REDUCE INFLATION TO 10 PERCENT BY 1978.

(C) ANDREATTA WAS FAR LESS CLEAR IN DESCRIBING WHAT QUID PRO QUO HE WOULD PROPOSE IN EFFORT TO OBTAIN LABOR'S CONCURRENCE TO ABOVE PROPOSAL. GENERAL AREA HE HAS IN MIND IS THAT OF TIGHTENING OF TAX EVASION, ALTHOUGH HE CONCEDED THAT THIS WAS A MUCH MORE OF A LONG RANGE PROPOSITION.

(C) ANDREATTA BELIEVES GOVERNMENT DEFICIT CAN BE LIMITED
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ONLY ON GRADUAL BASIS. HIS PROPOSAL IS THAT DEFICIT BE LIMITED IN THE COMING YEARS TO CEILING AGREED UPON WITH EC FOR 1976, I.E. LIRE 13,800 BILLION; HENCE, DEFICIT WOULD BE GRADUALLY REDUCED IN REAL TERMS. HE REPORTED MOST RECENT ESTIMATE BY TREASURY DIRECTOR GENERAL VENTRIGLIA THAT 1977 DEFICIT WOULD BE AROUND LIRE 16,000 BILLION AND ASSERTED THAT AN ADDITIONAL 3,000 BILLION COULD BE ABSORBED BY INCREASED TAXATION. ACCORDING TO ANDREATTA, MAJOR DRAIN ON

GOVERNMENT DEFICIT IS THAT LOCAL GOVERNMENT UNITS (ENTI LOCALI). HE PROPOSES THAT BANK OF ITALY DESIGNATE SINGLE BANK TO HANDLE FINANCES OF ALL SUCH UNITS, I.E. UNITS WOULD BE REQUIRED TO DEPOSIT AND BORROW FUNDS ONLY FROM THIS BANK. BANK WOULD LEND AT LOWER INTEREST RATE THAN PRESENTLY CHARGED AND AT SAME TIME PROVIDE LOWER INTEREST ON DEPOSITS FROM THESE UNITS. THIS SCHEME WOULD MAINTAIN PROFIT MARGIN FOR BANK, LOWER COST OF BORROWING, BUT AT SAME TIME PROVIDE MECHANISM FOR FAR GREATER CONTROL.

4. ANDREATTA REPORTED THAT HE IS PARTICIPATING IN GROUP OF 7 OR 8 MEMBERS OF DC ON DEVELOPMENT OF NEW ECONOMIC PROGRAM. HE DID NOT PROVIDE FURTHER DETAILS EXCEPT TO MENTION THAT UMBERTO AGNELLI IS PARTICIPATING IN THIS GROUP. ANDREATTA EMPHASIZED THAT VIEWS EXPRESSED ABOVE WERE PERSONAL ONES AT THIS STAGE AND DID NOT REPRESENT OFFICIAL VIEWS OF THE DC. VOLPE

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